DOME PETROLEUM LIMITED 1970 ANNUAL REPORT

AND FIRST QUARTER 1971

FRONT COVER

Aerial photograph of Isachsen Dome on Ellef Ringnes Island in the Canadian Arctic. This piercement dome is the result of the arching of sediments by an intrusive plug of gypsum. Subsequent erosion has exposed the three mile wide circular plug surrounded by concentric bands of upturned sandstones and shales.

ANNUAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario, on April 26, 1971, at 11:30 a.m. A formal notice of meeting and proxy form are enclosed with this report. Please return your proxy if you are unable to attend the meeting.

DOME PETROLEUM LIMITED
ANNUAL REPORT 1970

DIRECTORS

NORMAN J. ALEXANDER,
Winnipeg, Manitoba
Managing Partner;
Richardson Securities of Canada

HENRY C. BRUNIE,
New York, N.Y.
Vice-Chairman of the Board;
The Bank of New York

JOHN P. GALLAGHER,
Calgary, Alberta
President of the Company

JOHN L. LOEB,
New York, N.Y.
Partner; Loeb, Rhoades & Co.

BRYCE R. MACKENZIE,
Toronto, Ontario
Senior Partner; Fasken & Calvin

CHARLES E. MAIN,
New York, N.Y.
Director; The Clark Estates, Inc.

A. BRUCE MATTHEWS,
Toronto, Ontario
Chairman of the Board;
The Excelsior Life Insurance Company

CLIFFORD W. MICHEL,
New York, N.Y.
Chairman of the Board; Dome Mines Limited. Partner; Loeb, Rhoades & Co.

WILLIAM F. MORTON,
Winchester, Mass.
Investment Manager

JAMES B. REDPATH,
Toronto, Ontario
President; Dome Mines Limited

OFFICERS

CLIFFORD W. MICHEL,
Chairman of the Board

JOHN P. GALLAGHER,
President

WILLIAM E. RICHARDS,
Vice-President and Secretary

CHARLES S. DUNKLEY,
Vice-President

JAMES B. REDPATH,
Vice-President

DONALD M. WOLCOTT,
Vice-President

HENRY T. ASTLE,
Treasurer

FRASER M. FELL,
Assistant Secretary

HEAD OFFICE

706 - 7TH AVENUE S.W.,
Calgary 2, Alberta

REGISTRARS AND TRANSFER AGENTS

CANADA PERMANENT TRUST COMPANY
Toronto, Ontario; Montreal, Quebec; Regina, Saskatchewan; Calgary, Alberta

THE BANK OF NEW YORK
New York, N.Y.

GENERAL COUNSEL

FASKEN & CALVIN
Toronto Dominion Bank Tower,
Toronto, Ontario

AUDITORS

CLARKSON, GORDON & CO.
Calgary, Alberta

STOCK LISTED

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE
AMERICAN STOCK EXCHANGE

COMPARATIVE HIGHLIGHTS

FINANCIAL SUMMARY

	1970	1969
Gross Income (after royalties)	$28,588,942	$23,591,807
Cash Income from Operations (after interest)	$13,117,773	$12,776,464
Cash Income per share	$3.88	$3.79
Net Income (after all charges)	$10,105,119*	$ 8,387,221
Net Income per share	$2.99*	$2.49
Shares Outstanding	3,398,114	3,372,755
Working Capital Deficit	$ 3,420,893	$11,811,256
Long Term Debt	$74,376,833	$42,636,742

**Includes extraordinary items.*

OPERATING SUMMARY

	1970	1969
Oil and Natural Gas Liquids Production (net barrels)	6,512,822	6,231,010
Gas Production (billion cubic feet)	54.1	48.7
Remaining Oil and Gas Liquids Reserves (net barrels)*	114,000,000	116,900,000
Remaining Gas Reserves (billion cubic feet)*	1,306	1,184
Wells Drilled	92	75
Land — Gross Acres	22,255,941	23,777,692
Land — Net Acres	17,209,425	19,127,099

**Excludes reserves processed at the Steelman, Edmonton, Cochrane and Coleville plants.*

FIRST QUARTER 1971 SUMMARY

	1971	1970
Gross Income (after royalties)	$10,114,000	$ 7,317,000
Cash Income from Operations (after interest)	$ 4,397,000	$ 3,984,000
Cash Income per share	$1.29	$1.18
Net Income (after all charges)	$2,891,000	$ 2,734,000
Net Income per share	$.85	$.81
Oil, Natural Gas Liquids and Oil Equivalent of Gas Production (net barrels per day)	29,250	26,500

First quarter figures are unaudited.

TWENTY YEARS OF GROWTH

1950	Dome Exploration (Western) Limited was incorporated as a Dominion Company with a private issue of $250,000 of equity capital and $7,700,000 of long-term debt. Following detailed seismic surveys, Dome purchased 1,280 acres of Crown Reserve lands in the vicinity of the new Redwater Oil Field. Subsequent development drilling on these leases and additional purchases proved up approximately 14,000,000 barrels of oil reserves net to Dome.
1951	Dome's first wildcat well discovered commercial oil at East Drumheller, Alberta. This Devonian oil well later developed into a field with over five million barrels of recoverable oil reserves. Dome made its first public offer totalling 500,000 common shares at $10.00 per share net to the Company.
1953	Dome's exploratory well in the Consort area of Alberta resulted in a 20-mile westward extension of the Provost Gas Field. Subsequent development drilling by the Company and other landholders in this area proved up approximately one trillion cu. ft. of gas reserves.
1954	Dome added to its gas reserves by a successful exploratory well in Westlock, Alberta. Dome also increased its oil reserves by successful step-out drilling near existing pools in Pembina and Rimbey, Alberta; Midale, Saskatchewan; and North Virden, Manitoba.
1956	Dome traded its Viking gas reserves at Provost, Westlock and Tofield for 37% of the outstanding common shares of Provo Gas Producers Limited. Provo's assets at that time were essentially gas reserves in the Provost Field. Dome then undertook the management of Provo and gave that Company a third interest in all new exploratory plays. Step-out drilling by Dome near the Steelman Oil Field in Saskatchewan proved successful, adding considerably to the Company's oil reserves.
1957	A second offering of 500,000 common shares of Dome was made to the public at $10.00 per share net to the Company.
1958	Dome made a major gas discovery at Laprise Creek in northeastern British Columbia. Following development drilling, the estimated recoverable reserves at Laprise Creek totalled over 700 billion cu. ft. The Company's name was changed to Dome Petroleum Limited and the head office moved from Toronto to Calgary. The Dome - Provo $17 million casinghead gas plant and underground storage facility at Steelman and Melville, Saskatchewan, were completed.
1959	Dome added more oil reserves by successful step-out drilling and Crown lease acquisitions at Boundary Lake, British Columbia. Dome acquired 2,200,000 acres in Canada's Arctic Islands.
1962	Dome sold its Redwater oil reserves for $8.7 million and paid off all outstanding debt. Dome drilled Canada's first Arctic Island exploratory well to 12,543 feet at Winter Harbour on Melville Island. This well discovered non-commercial gas and proved the feasibility of winter operations in this region. Dome completed Canada's first "straddle plant" at Edmonton, Alberta. This plant extracts propane, butane and natural gasoline from a 70 million cu. ft. per day gas stream. Part of the product is utilized in Dome's propane vapor utility systems in northern Manitoba.
1966	Dome's first exploratory well in the Zama area of northern Alberta proved successful.
1967	Dome exchanged 722,000 common shares for all the outstanding shares of Provo Gas Producers Limited.
1968	Dome was appointed interim operator of Panarctic Oils Ltd., a consortium of oil and mining companies and the Canadian Government. The $50 million exploration program was commenced in March. Net income, after all charges, passed $10 million.
1969	Dome commenced construction of the integrated natural gas liquids system including gas plants, pipelines and storage facilities. When completed in 1972, this system will have a total investment of approximately $100 million and will have the capacity to process and move 100,000 barrels per day of natural gas liquids through the Interprovincial pipeline to Eastern Canada and the United States. Dome will own approximately 46% of the production.

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS

January 23, 1970, marked the 20th anniversary of the founding of Dome Petroleum Limited. The highlights of this period are recorded on the opposite page. The past year was of special significance in your Company's history.

- A gas discovery of major proportions was made by Panarctic Oils Ltd. on King Christian Island. Dome holds a 4.06% interest in Panarctic plus 190,000 net acres partially on the King Christian structure and the remainder covering an adjoining untested structure.

- The first phase of the integrated natural gas liquids (NGL) system was completed. This system will become one of the Company's largest operations and should provide many opportunities for related processing, transportation and marketing activities.

- A major exploratory farmout to Columbia Gas Development Corporation of Delaware was completed involving a 7½% interest in Dome's non-producing acreage. Columbia will finance the first half of a $60 million joint exploration and land acquisition program which will enable Dome to expand its exploration activities with no cash outlay on its part for the next three years.

- Producers Pipelines Ltd., one of Canada's largest crude oil gathering and transmission companies, was purchased for cash. Producers' operations in southeastern Saskatchewan will provide funds for other purposes while its technical and operations staff will assist in the construction and operation of Dome's growing network of pipelines.

- Financially, 1970 was a year of heavy capital expenditures. A record $32 million of long-term bank borrowings were needed to finance the Company's gas plant construction, exploration projects and pipeline acquisitions. Additional long-term bank loans have been negotiated to complete the second phase of the NGL system in 1971.

- Production of oil, natural gas liquids and oil equivalent of gas at 25,560 net barrels per day and gross income at $28,589,000 reached record levels in 1970. Cash income, after interest, increased to $13,118,000 from $12,776,000 in 1969 while net income, including extraordinary items of $2,078,000, amounted to $10,105,000 compared with $8,387,000 in the previous year. Interest, depreciation and depletion expenses were appreciably higher than in 1969, but these expenses will decline relative to gross income by 1972.

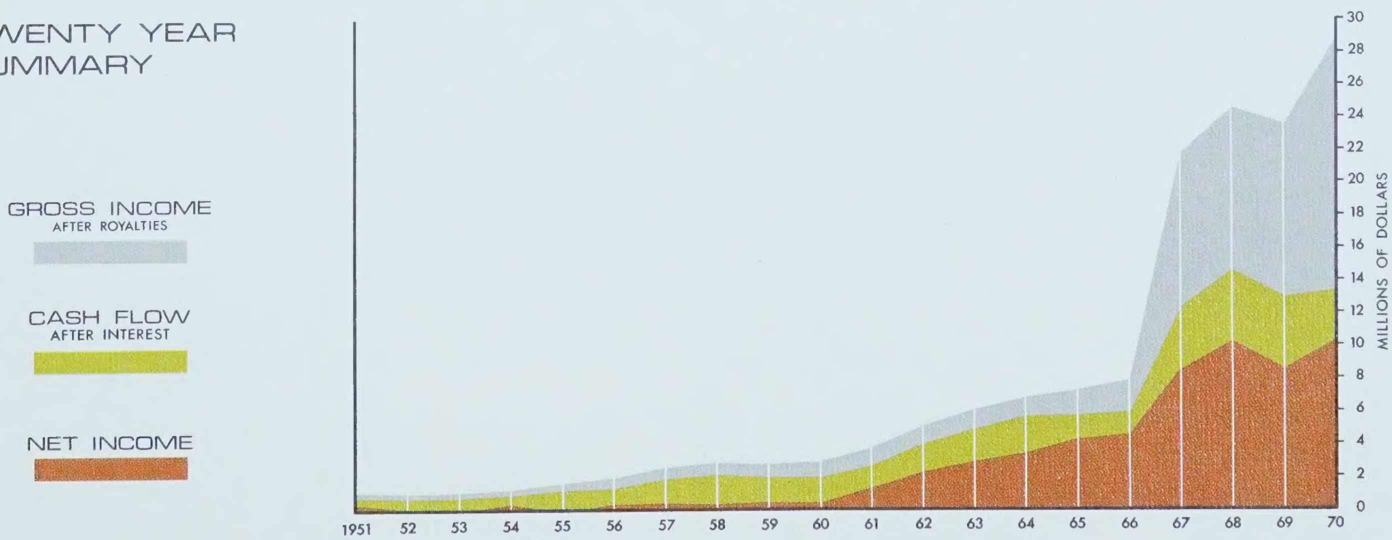
The outlook for the coming year is encouraging. The demand for crude oil, natural gas and natural gas liquids is greater than at any time in the history of the Canadian industry. Prices of crude oil increased in late 1970 and further increases may be expected as a result of the substantial rise in offshore oil prices and tanker rates. The search for new oil and gas reserves is intensifying and with its large land holdings, particularly in the frontier areas of Canada, Dome has excellent exposure to the exploration activities of other companies.

Perhaps Dome's greatest potential for growth lies in the quality of its staff. It is their skill and resourcefulness which has contributed most to the Company's success during the past 20 years.

C. W. MICHEL, *Chairman of the Board* — J. P. GALLAGHER, *President*

April 2, 1971.

TWENTY YEAR SUMMARY



Excludes Provo prior to 1967

EXPLORATION REVIEW

Dome's 1970 exploratory drilling program included participation in 66 wells, 48 of which were drilled at no cost to your Company. Twelve of these wells were successful, resulting in gas discoveries at Lobley in the Alberta foothills and at Atmore, Killam, Dunvegan and Red Earth in the Central Plains of Alberta.

In addition to its extensive exploratory drilling your Company also undertook considerable geophysical exploration in order to evaluate its untested acreage. In the Beaufort Sea, Hunt International Petroleum Company of Canada conducted a 650-mile seismic program over Dome's 2,230,000 acre block preparatory to selecting a drilling location for the obligatory well, which must be commenced before the end of 1973. Upon completion of this 12,000 foot test, Hunt will have earned approximately 385,000 net acres. Off the East Coast, your Company conducted a 391-mile marine seismic program over its 2,081,000 acre block which revealed several potential hydrocarbon traps.

ARCTIC ISLANDS

Of major importance to Dome is the high degree of success experienced by Panarctic Oils Ltd., in which Dome has a 4.06% interest. Although Panarctic has completed only six wells to date in the Canadian Arctic, it has already discovered two major gas fields, one at Drake Point on Melville Island and the other on King Christian Island.

The 1971 exploratory drilling program by Panarctic and other operators in the Arctic Islands will involve eight active rigs drilling an estimated 117,000 feet of hole in 11 tests. The currently drilling and projected wells are shown on the accompanying map and are described below:

Panarctic Amund Central Dome. This 11,000 foot test is currently drilling on Dome's 234,400 acre permit block on Amund Ringnes Island.

Panarctic King Christian. This major gas discovery was drilled within 2½ miles of your Company's wholly-owned acreage which covers part of the gas-bearing structure. A rig is currently moving in to drill a 10,000 foot test 1½ miles southeast of the discovery well and 1 mile north of Dome's acreage.

Panarctic Fosheim. A 14,000 foot well is scheduled to commence by May, 1971, on this large structure near Eureka Sound on Ellesmere Island. Dome has 100% interest in 254,500 acres in the vicinity.

BP Panarctic Satellite Bay. This important test on Prince Patrick Island is expected to commence drilling by May, 1971 and is scheduled to reach 12,000 feet. It will be located within three miles of your Company's wholly-owned 55,900 acre permit on a structure indicated by geophysical surveys to extend under Dome's acreage. Your Company also has 100% interest in a 515,600 acre block located 35 miles west of this well.

BP Panarctic Hotspur. This 12,000 foot test will be located on Vanier Island in the Bathurst Island Group, on a large surface structure confirmed by geophysical surveys. Dome owns a 100% interest in a 30,400 acre permit six miles north of this location and a further 59,600 acres in the area.

BP Graham Island. This anticipated 12,000 foot test will be located on Graham Island, which lies 13 miles west of Dome's 137,400 acre wholly-owned permit block.

Sun Panarctic Skybattle Bay. This projected 12,000 foot well is located on Lougheed Island, five miles north of your Company's wholly-owned 257,500 acre permit block and is scheduled for an immediate start. Geophysical surveys indicate that the anticline to be drilled extends under Dome's acreage.

Elf Jameson Bay. Dome's 29,900 acre wholly-owned block is located eight miles southeast of this currently drilling well on Prince Patrick Island. The well is scheduled to reach 12,000 feet.

Panarctic Cornwallis Central Dome. A 10,000 foot well is scheduled to test the large domal structure in the centre of Cornwallis Island.

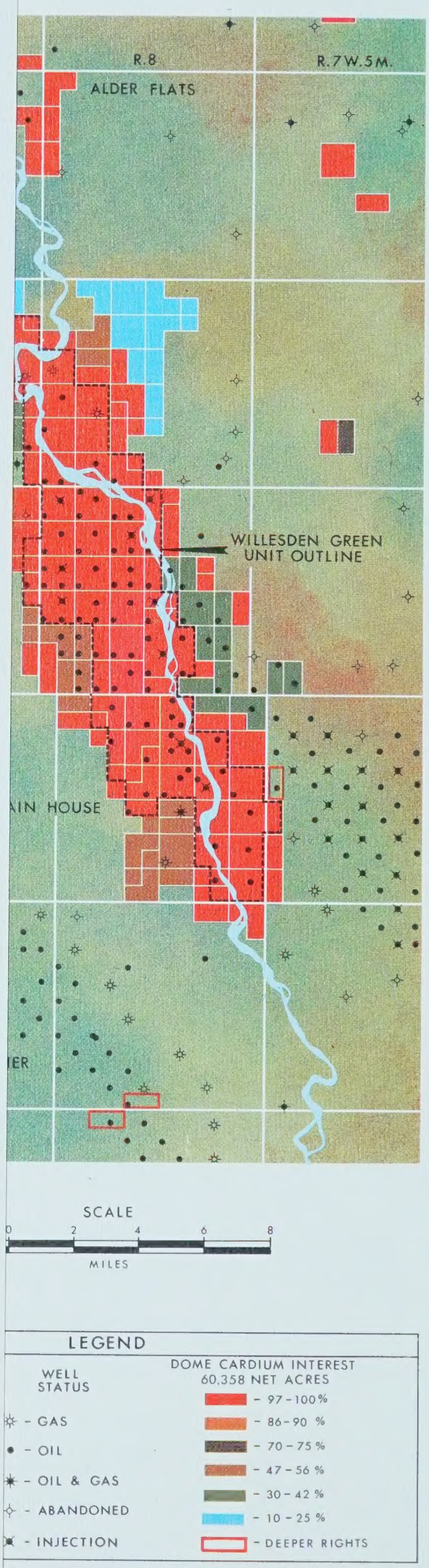
Panarctic Somerset Garnier. This proposed 6,000 foot well will test the Paleozoic carbonates flanking the Boothia Arch on Somerset Island.

Sun Panarctic Bathurst Island. Sun is obligated to Panarctic to drill a further test on Bathurst Island to at least 6,000 feet. It is anticipated that Paleozoic reefs will again be sought.

Fold-out map on opposite page.


ARCTIC ISLANDS
NORTHWEST TERRITORIES
DOME LAND HOLDINGS
5,784,606 NET ACRES
LAND COMMITTED TO PANARCTIC
PROPOSED WELLS
DRILLING WELLS
50 miles
0
50
100
150 miles
MAP AREA
CANADA
U. S. A.
140°
132°
124°
116°
108°
ARCTIC OCEAN
BEAUFORT SEA
BORDEN IS.
MACKENZIE KING IS.
SEE DETAIL MAP NEXT PAGE
LOUGHEED IS.
PRINCE PATRICK IS.
EMERALD ISLE
PANARCTIC DRAKE POINT GAS DISCOVERY
EGLINTON IS.
MELVILLE ISLAND
M'Clure Strait
BANKS ISLAND
VISCOUNT MELVILLE SOUND
STEFANSSON IS.
M'Clintock Channel

LESDEN GREEN
T CENTRAL ALBERTA



OPERATIONS REVIEW

PRODUCTION

Oil and natural gas liquids production during 1970 totalled 6,512,822 barrels (17,843 barrels per day), a 5% increase over 1969's production of 6,231,010 barrels (17,071 barrels per day).

Sales of gas increased over 11% to 54.1 billion cubic feet (148.3 million cubic feet per day) from the 1969 total of 48.7 billion cubic feet (133.4 million cubic feet per day).

Sulphur production in 1970 totalled 12,715 tons compared to 12,131 tons in 1969.

At year-end, Dome held interests equivalent to 424 net producing oil wells and 222 net producing gas wells, plus royalty interests in a further 123 producing oil or gas wells.

RESERVES

Net recoverable oil and natural gas liquids reserves at December 31, 1970, were estimated to be 114,000,000 barrels excluding the heavy gravity oil reserves at Hughenden and McMurray, Alberta. Recoverable natural gas and sulphur reserves at year-end totalled 1.3 trillion cubic feet and 198,400 long tons respectively.

A typical wildcat wellsite in the Alberta foothill country.

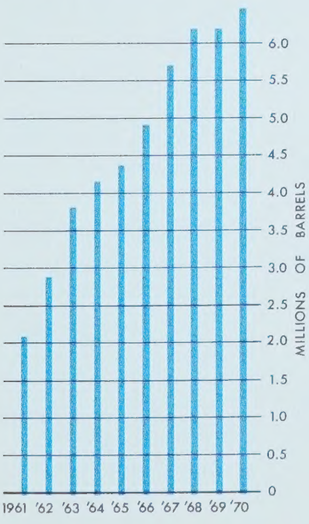
DRILLING

In addition to the 66 exploratory wells which were drilled in 1970, your Company participated in the drilling of 26 development wells in order to increase the deliverability of its fields. Included in these development wells were five gas producers in the Provost Gas Unit, three in the Brownfield Gas Unit and one in the North Provost Gas Unit. Dome is the operator and major owner of these gas units.

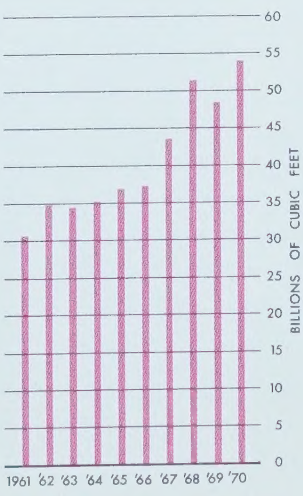
WILLESDEN GREEN

Dome has recently increased its holdings in the Willesden Green area of Alberta and now owns a total of 60,358 net acres including 80.3 net oil producers and 5.9 net gas wells (see accompanying map). Pressure maintenance is now in operation with 5,120 acres under water injection and 11,360 acres under gas injection. Expansion of the acreage under pressure maintenance is currently in progress.

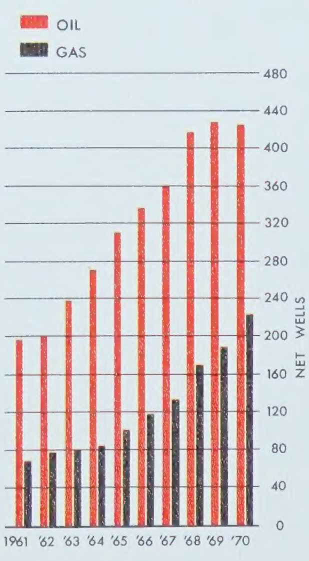
OIL & NATURAL GAS LIQUIDS PRODUCTION



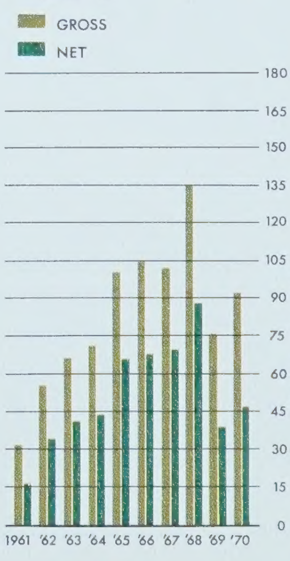
GAS PRODUCTION



NET PRODUCING WELLS



WELLS DRILLED



NATURAL GAS LIQUIDS SYSTEM

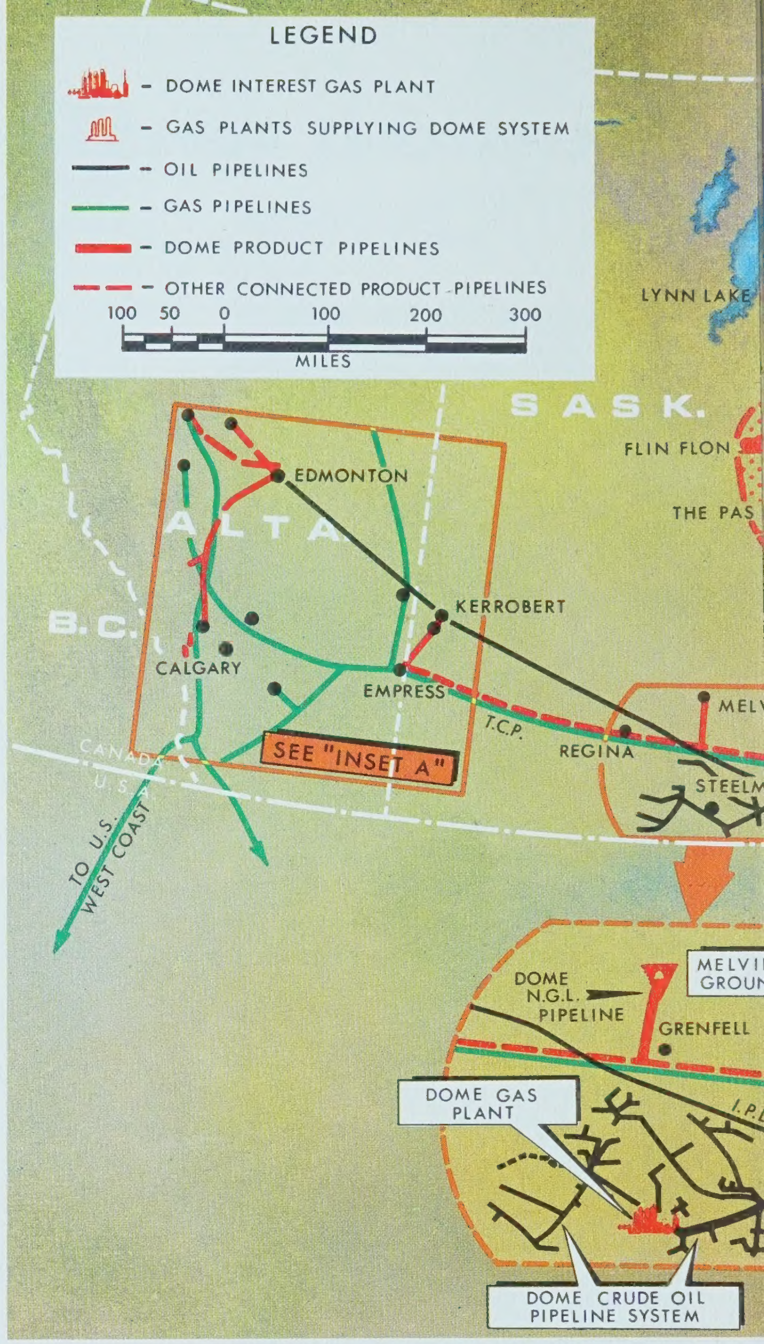
The first stage of Dome's integrated natural gas liquids system was completed in 1970 with the start-up of the Cochrane extraction plant, the Sarnia fractionation plant and the intermediate pipeline and storage facilities. Production of propane, butanes and condensate is now close to system capacity. Dome is a 50% owner of the liquids from the Cochrane extraction plant and has also contracted for additional supplies from major Alberta gas fields including Quirk Creek, Strachan, Ferrier and Kaybob.

Construction of the second stage of the integrated NGL system in which Dome will have a 50% interest has commenced and will be completed in 1972. The major source of liquids for this stage is TransCanada's 1½ billion cubic feet per day gas stream at Empress, Alberta. Sixteen thousand barrels per day of liquids will flow from the Empress extraction plant by pipeline to underground storage facilities at Kerrobert, Saskatchewan. At Kerrobert, the liquids will be injected in 50,000 barrel batches into Interprovincial's pipeline to Sarnia, Ontario. To accommodate the additional volume of liquids, the capacity of the Sarnia fractionation and underground storage plant is being doubled. In addition, the Empress plant is designed to produce approximately 25,000 barrels per day of liquid ethane and negotiations are underway to transport and market this product.

According to Alberta Conservation Board estimates the existing reserves of natural gas liquids available to the integrated NGL system exceed 260 million barrels. This substantial reserve, which is increasing as additional gas fields go on stream, provides an assured source of supply to the system and will enable Dome and its partners to help satisfy the growing market in Eastern Canada and the U.S. By 1973, it is expected that output of fractionated products from the system will reach 100,000 barrels per day, of which approximately 46% will be owned by your Company. Dome will operate the integrated system.

PIPELINES

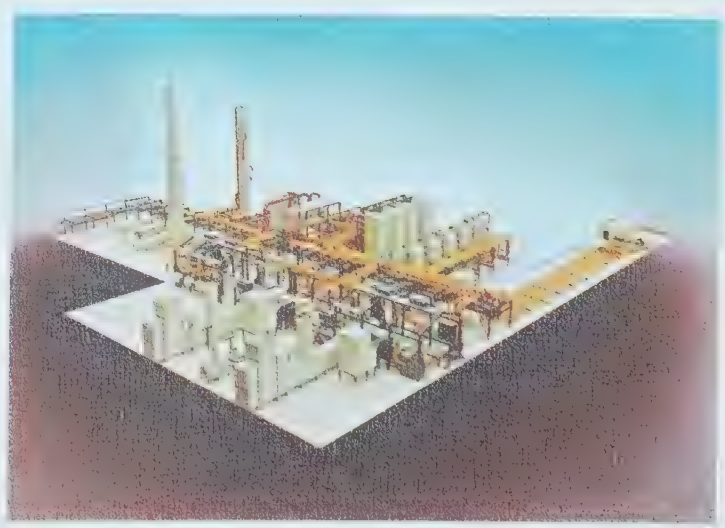
Your Company has gradually expanded its field of interest to include natural gas liquids and oil pipelines. Dome has constructed and is now operating a 224 mile natural gas liquids pipeline system from the Cochrane extraction plant to Edmonton, Alberta, and the 45 mile Cochin pipeline from Grenfell to the propane storage caverns at Melville, Saskatchewan. In 1970 Dome further expanded its pipeline interests by purchasing for cash all of the outstanding shares and assets of Producers Pipelines Ltd., including the shares of its subsidiary, Westspur Pipe Line Company.



MAP OF DOME NATURAL GAS LIQUIDS & PIPELINE SYSTEM

Producers operates over 1,200 miles of crude oil gathering and transmission lines in southeastern Saskatchewan with throughput in excess of 140,000 barrels per day. Dome also operates 310 miles of gas gathering lines in the same area and the integration of the two operations will result in a measurable increase in overall efficiency. During 1971 a 94 mile pipeline will be built to move natural gas liquids from the Empress straddle plant to the Interprovincial pipeline at Kerrobert, Saskatchewan. In addition, 35 miles of oil pipeline will be added to the Producers system in Saskatchewan.

These high-pressure spheres at Superior, Wisconsin provide 150,000 barrels of "break-out" storage for batches of natural gas liquids moving through Interprovincial's pipeline.



Actual scale model used in the design and construction of the 16,000 barrel per day "straddle plant" which Dome is building at Empress, Alberta.

DOME PETROLEUM LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
YEARS ENDED DECEMBER 31, 1970 AND 1969

	1970	1969
Gross sales and other revenues	$28,588,942	$23,591,807
Deduct:		
Operating and selling expenses	7,186,345	5,638,018
Cost of propane and other products sold	4,748,080	2,108,853
General and administrative expenses	403,352	272,514
Interest on long term debt	2,340,523	2,096,158
Other interest expense	792,869	699,800
	15,471,169	10,815,343
Cash income from operations	13,117,773	12,776,464
Deduct:		
Depletion	2,683,772	2,268,135
Depreciation	2,337,501	2,031,765
Amortization	69,254	89,343
	5,090,527	4,389,243
Income before extraordinary items	8,027,246	8,387,221
Extraordinary items:		
Recovery of income taxes paid by subsidiaries (Note 1)	1,392,000	—
Gain on sale of marketable securities	685,873	—
	2,077,873	—
Net income for the year (Note 6)	$10,105,119	$ 8,387,221
Net income per share (on weighted monthly average number of shares outstanding during the year)		
Income before extraordinary items	$2.37	$2.49
Extraordinary items	.62	—
Net income	2.99	2.49

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1970 AND 1969

	1970	1969
Balance at beginning of year	$54,786,803	$46,399,582
Net income for the year	10,105,119	8,387,221
Balance at end of year	$64,891,922	$54,786,803

See accompanying notes.

DOME PETROLEUM LIMITED
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEARS ENDED DECEMBER 31, 1970 AND 1969

	1970	1969
Source of Funds:		
Cash income from operations	13,117,773	12,776,464
Extraordinary items:		
Recovery of income taxes paid by subsidiaries	1,392,000	—
Gain on sale of marketable securities	685,873	—
Term bank loans	32,009,464	11,990,156
5¾% First Mortgage Bonds	3,084,500	—
Issues of capital stock	685,298	310,425
Other	337,636	197,067
	51,312,544	25,274,112
Application of Funds:		
Expenditures for property, plant and equipment	38,915,149	28,708,544
Reduction of long term debt	3,353,873	7,581,395
Investment in Panarctic Oils Ltd.	653,159	489,520
	42,922,181	36,779,459
Increase (Decrease) In Working Capital	$ 8,390,363	($11,505,347)

CONSOLIDATED STATEMENT OF PAID-IN SURPLUS

YEARS ENDED DECEMBER 31, 1970 AND 1969

	1970	1969
Balance at beginning of year	$13,401,942	$13,131,242
Premium on shares issued for cash (Note 5)	621,901	270,700
Balance at end of year	$14,023,843	$13,401,942

See accompanying notes.

DOME PETROLEUM LIMITED

AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1970 AND 1969

ASSETS	1970	1969
CURRENT:		
Cash	$ 3,405,064	$ 2,436,550
Marketable securities at cost which approximates market	577,471	233,178
Accounts receivable	9,468,238	7,232,663
Income taxes recoverable	1,744,576	—
Inventories —		
Crude oil, products and merchandise at the lower of cost or net realizable value	2,953,834	1,330,022
Materials and supplies at cost	681,937	475,692
Prepaid expenses	137,238	557,498
	18,968,358	12,265,603
INVESTMENTS:		
Shares of Panarctic Oils Ltd. at cost	1,481,487	828,328
Other investments at cost	201,595	563,134
Deposits and long term receivables	454,752	472,924
	2,137,834	1,864,386
PROPERTY, PLANT AND EQUIPMENT (NOTE 2)	162,618,947	128,725,071
OTHER:		
Financing, market development and preproduction expenses less amounts written off	451,995	479,174
	$184,177,134	$143,334,234

See accompanying notes.

AUDITORS' REPORT

To the Shareholders of
Dome Petroleum Limited.

We have examined the consolidated balance sheet of Dome Petroleum Limited and its subsidiaries at December 31, 1970 and the consolidated statements of income, paid-in surplus, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

LIABILITIES	1970	1969
CURRENT:		
Bank loans (NOTE 3)	$ 13,300,000	$ 12,000,000
Accounts payable	4,962,612	4,223,816
Accrued interest on long term debt	298,765	339,020
Current instalments of long term debt	3,827,874	7,514,023
	22,389,251	24,076,859
LONG TERM DEBT (NOTE 4)	74,376,833	42,636,742
SHAREHOLDERS' EQUITY (NOTE 5):		
Capital—		
Authorized — 5,000,000 shares of a par value of $2.50		
Issued — 3,398,114 shares (1969 — 3,372,755)	8,495,285	8,431,888
Paid-in surplus	14,023,843	13,401,942
Retained earnings	64,891,922	54,786,803
	87,411,050	76,620,633
	$184,177,134	$143,334,234

On behalf of the Board:

Clifford W. Mitchell, Director.

Director.

In our opinion, except that no provision has been made for deferred income taxes in respect of depreciable assets as explained in Note 6, these financial statements present fairly the financial position of Dome Petroleum Limited and its subsidiaries as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
March 12, 1971.

CLARKSON GORDON & CO.
Chartered Accountants.

1. Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The accounts of the U.S. subsidiaries have been converted to Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange in effect at the year-end, fixed assets and long term debt at the rates in effect on the dates of acquisition, and income and expenses at the average rates for the year. The net gain on conversion, which is not material in amount, has been included in income.

The Company previously owned approximately 10% of the outstanding shares of Producers Pipelines Ltd. The Company acquired for cash all of the net assets of Producers including the shares of its wholly-owned subsidiary, Westspur Pipe Line Company. Subsequently all of the remaining outstanding shares of Producers were acquired and on December 31, 1970 substantially all of the purchased assets (with the exception of the Westspur shares) were resold to Producers.

The excess of the cost of Producers' assets over their net book value is attributable to pipeline facilities and is included therein in the accompanying consolidated balance sheet.

As a result of the purchase from the Company of producing oil and gas properties, Producers and Westspur will recover income taxes of $1,392,000 paid in respect of their earnings prior to acquisition by the Company; this amount has been included as an extraordinary item in the accompanying consolidated statement of income.

2. Property, Plant And Equipment

Details of the companies' property, plant and equipment are as follows:

	Gross Investment at Cost	*Accumulated Depreciation and Depletion*	*Net Investment 1970*	*Net Investment 1969*
Oil and gas properties	$ 93,921,649	$15,398,871	$ 78,522,778	$ 74,120,141
Plants, buildings, pipelines and related facilities	89,822,166	21,855,013	67,967,153	38,860,395
Production and other equipment	19,914,326	3,785,310	16,129,016	15,744,535
	$203,658,141	$41,039,194	$162,618,947	$128,725,071

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit-of-production method based on estimated proven reserves of oil and gas. Depreciation of plants, equipment and pipeline facilities is provided on either the unit-of-production method or the straight line method whichever is appropriate in the circumstances.

Plants, buildings, pipelines and related facilities includes $18,536,000 expended on an integrated natural gas liquids system presently under construction. Interest related to the financing of the system is being capitalized during the construction period and amounted to $1,234,000 in 1970 ($396,000 in 1969).

3. Bank Loans

Current bank loans of $13,300,000 are partially secured by assignment of accounts receivable and an undertaking to provide oil and gas security if requested.

4. Long Term Debt

Details of the companies' long term debt are as follows:

	Maturity	*1970*	*1969*
First Mortgage Bonds —			
3¾% Sinking fund bonds	1971	$ 200,000	$ —
5¾% Sinking fund bonds	1973	984,500	—
5¾% Sinking fund bonds	1978	2,374,000	—
5¾% Serial bonds (U.S. $10,351,000)	1984	11,165,820	11,677,135
6½% bonds	1985	849,000	882,000
6% bonds	1970	—	4,359,612
Debentures —			
6% Series A debentures	1970	—	3,454,535
6% Sinking fund debentures	1973	2,000,000	2,000,000
5% Convertible income debentures	1988	15,000,000	15,000,000

	Maturity	1970	1969
Term bank loans —			
6% - 6¾% loans	1972	$ 2,471,767	$ 4,135,555
Other loans with interest varying from ½% to 1% in excess of the the prevailing prime bank rate	1976 to 1981		
U.S. $14,900,000		15,999,620	6,990,156
Canadian		27,160,000	5,000,000
Other		—	609,190
		78,204,707	54,108,183
Deduct:			
Instalments due within one year included in current liabilities		3,827,874	7,514,023
Cash and investments held by amortization fund trustee		—	3,957,418
		3,827,874	11,471,441
		$74,376,833	$42,636,742

The 5% Convertible Income Debentures are secured by a floating charge on all of the Company's undertaking, property and assets, both present and future, are convertible at any time to May 15, 1988 into common shares of the Company at $84.75 per share and are redeemable after May 15, 1973 at 105 percent of the principal amount.

Term bank loans of $23,999,620 maturing in 1979 are secured by demand debentures which represent first floating charges on the assets and contracts comprising the construction program for which the funds were borrowed. The other term loans are secured by certain producing properties and pipeline facilities.

Approximate instalments of long term debt (including sinking fund payments) due in each of the years 1972 to 1975 are as follows: 1972 - $8,528,000; 1973 - $7,480,000; 1974 - $6,450,000; 1975 - $6,549,000.

5. Capital

During the year 9,429 shares were issued on the exercise of options for $223,470 cash, 843 shares were issued in exchange for shares of Provo Gas Producers Limited and 15,087 shares were issued on the exercise of stock purchase warrants for $461,828 cash. The par value of the shares issued, $63,397, was credited to share capital account and the balance, $621,901, to paid-in surplus.

At December 31, 1970, 317,226 shares of the Company's stock were reserved as follows:

177,000 shares for the conversion of the 5% Convertible Income Debentures.

61,238 shares for options granted to officers and 72,612 shares for options granted to other employees. During the year options for 25,000 shares exercisable at $68.00 and 25,000 shares exercisable at $74.00 were cancelled and replaced by options exercisable at $47.00 which was the average market price on the date of replacement. The options are exercisable on various dates to May 4, 1980 at prices ranging from $12.80 to $56.75 per share.

6,376 shares for the shares of Provo Gas Producers Limited not yet presented for exchange.

6. Income Taxes

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges to income. As a result, no income taxes are payable in respect of income reported for the year ended December 31, 1970; and at that date accumulated expenditures of $74,000,000 were available to be carried forward and applied against future taxable income.

The companies believe that tax allocation accounting as recommended by the Canadian Institute of Chartered Accountants is not appropriate in the oil and gas industry and accordingly no provision has been made for deferred taxes on timing differences. If the tax allocation basis had been followed, deferred income taxes would have been provided in 1970 in the amount of $4,107,000 ($1.21 per share) and in 1969 in the amount of $2,985,000 ($.89 per share) and net income for those years would have been reduced accordingly. Of the foregoing, $1,465,000 ($.43 per share) in 1970 and $1,300,000 ($.39 per share) in 1969 are in respect of depreciable assets.

The accumulated income tax reductions relating to all timing differences in the current and prior years amounted to $22,329,000 at December 31, 1970 and $18,222,000 at December 31, 1969.

7. Directors and Officers

The ten members of the Board do not receive any remuneration for their services as directors. Two of the directors are also officers. The aggregate remuneration paid in 1970 to the eight officers was $83,407.

TEN YEAR REVIEW

FINANCIAL

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE FIGURES)

YEAR	Gross Income (after royalties)	Operating Expenses	Cost of Product	General and Admin. Expenses	Interest	Cash Income after Interest	Cash Income after Interest per Share	Depreciation, Depletion and Amortization
1970	28,589	7,186	4,748	403	3,133	13,118	3.88	5,091
1969	23,592	5,638	2,109	273	2,796	12,776	3.79	4,389
1968	24,561	5,322	1,905	361	2,521	14,452	4.31	4,374
1967	21,769	4,669	2,275	481	2,183	12,161	3.66	3,800
1966	17,848	4,165	1,665	520	1,780	9,718	2.94	3,295
1965	15,243	3,580	899	359	1,423	8,983	2.72	3,210
1964	13,708	3,174	336	340	1,187	8,672	2.63	2,902
1963	12,200	2,955	306	301	1,035	7,602	2.32	2,701
1962	10,181	2,389	180	237	1,084	6,292	1.92	2,570
1961	8,013	1,860	244	281	1,274	4,354	1.33	1,801

OPERATING

YEAR	PRODUCTION						RESERVES	
	Oil and Natural Gas Liquids (net bbls)	Average Daily Oil and N.G.L. (net bbls)	Gas (billion cubic feet)	Average Daily Gas (million cubic feet)	Average Daily Oil, N.G.L. and O.E.G. (net bbls)	Sulphur (long tons)	Est. Remaining Oil and N.G.L. (net bbls)	Est. Remaining Gas (billion cubic feet)
1970	6,512,822	17,843	54.1	148.3	25,562	12,715	114,000,000	1,306
1969	6,231,010	17,071	48.7	133.4	24,079	12,131	116,900,000	1,184
1968	6,259,450	17,102	51.8	141.6	24,615	13,841	73,300,000**	1,100**
1967	5,757,849	15,775	43.7	119.7	21,238	6,353	61,890,000**	1,011**
1966	4,972,284	13,623	37.2	101.9	18,280	3,700	59,267,000**	919**
1965	4,445,043	12,178	36.8	100.8	16,532	883	53,830,000	829
1964	4,203,161	11,484	35.7	97.5	15,896	661	50,769,000	793
1963	3,857,801	10,569	34.9	95.6	14,912	1,016	48,300,000	754
1962	2,967,233	8,129	35.1	96.2	12,543	2,339	44,600,000	770
1961	2,208,048	6,049	31.3	85.8	9,958	1,941	52,246,000	763

**Includes extraordinary items.*
***Excludes Zama and other confidential reserves.*

Figures for all years include Provo Gas Producers Limited.

Net Income	Net Income per Share	Shares Outstanding	Long Term Debt	Land Rentals	Exploration Costs	Development Costs	Plants, Pipe-lines & Related Facilities	Land Acquisition Costs
10,105*	2.99*	3,398	74,377	1,061	3,452	1,223	30,865	2,314
8,387	2.49	3,373	42,637	1,259	3,718	5,447	14,010	4,274
10,078	3.00	3,357	38,228	1,354	2,668	6,535	4,068	3,744
8,361	2.51	3,325	29,270	815	4,576	7,526	4,927	3,626
6,424	1.94	3,308	23,978	665	2,773	5,869	1,796	2,472
5,774	1.75	3,300	21,264	551	1,574	5,598	4,138	919
4,085	1.24	3,284	18,096	530	1,154	3,655	1,775	5,560
3,386	1.03	3,280	14,476	473	1,043	4,130	1,824	1,044
2,204	.67	3,276	13,133	446	1,072	3,462	3,278	1,809
1,741	.53	3,273	18,933	359	453	2,105	513	770

WELLS DRILLED						NET WELLS		ACREAGE	
Gross	Working Interest Gross	Working Interest Net	Royalty Interest	Exploratory Gross	Step Out and Development Gross	Oil	Gas	Gross	Net
92	64	45.9	28	66	26	424	222	22,255,941	17,209,425
75	58	38.3	17	36	39	426	187	23,777,692	19,127,099
134	116	87.3	18	82	52	414	168	19,593,390	15,931,523
102	88	68.5	14	54	48	359	131	13,268,294	11,003,613
104	97	67.0	7	49	55	335	117	7,504,166	5,212,851
100	88	65.7	12	37	63	309	99	6,064,597	3,829,128
70	61	43.1	9	22	48	269	83	6,745,955	4,194,810
66	64	41.0	2	8	58	237	79	6,763,610	4,204,095
54	54	32.7	—	16	38	200	75	6,570,663	3,988,641
31	26	15.9	5	7	24	196	66	4,427,385	3,457,813

N.G.L. — Natural Gas Liquids O.E.G. — Oil Equivalent of Gas

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